

Message Text

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SUBJ: VAT

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1. DIRECTORATE GENERAL OF TAXATION HAS ISSUED INSTRUCTIONS IMPLEMENTING PRESIDENT'S AUGUST 9 DECISION TO REMOVE VAT ON RETAIL SALES AND LIMIT IT TO INDUSTRY, IMPORTERS, AND WHO-LESALERS. INSTRUCTIONS ARE, PERHAPS NECESSARILY, VAGUE, GIVINGG DGT A GREAT DEAL OF DISCRETION. KEY POINTS FOLLOW.

2. ALL IMPORTS, EXCEPT RICE, ARE SUBJECT TO VAT.

3. HANDICRAFT, FARMERS AND FISHERMEN THAT WERE PERMITTED TO OPT OUT IN ORIGINAL LAW, ARE NARROWLY DEFINED. FOR EXAMPLE, HANDICRAFT INDUSTRY IS ONE THAT EMPLOYS NO LABOR EXCEPT A SPOUSE AND CHILDREN, AND USES MACHINES WITH LESS THAN THREE HORSEPOWER. FOR ANIMAL HUSBANDRY TO BE CLASSIFIED AS FAMILY (AND EXEMPT) ENTERPRISE, A MAN MAY HAVE NO MORE THAN TWO SOWS, OR TWO HUNDRED HEAD OF POULTRY, ETC.

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4. WHOLESALERS ARE ALSO NARROWLY DEFINED, FOR EXAMPLE, A SHOP THAT SELLS SUGAR BY THE BAG OR MILK BY THE CASE IS CONSIDERED A WHOLESALER AND TAXED ACCORDINGLY. IF A RETAILER ALSO DOES BUSINESS AS A WHOLESALER HE IS SUBJECT TO VAT ON ALL SALES.

5. SERVICES ARE VAGUELY DEFINED FOR THE MOST PART. MEDICAL SERVICES ARE EXEMPT, AS ARE THE SUPPLY OF WATER, ELECTRICITY AND EDUCATION. SERVICES RENDERED TO CONSUMERS ARE EXEMPT WHEREAS SERVICES RENDERED TO BUSINESS ENTITIES ARE NOT. FOR EXAMPLE, INTEREST ON ADB AND RURAL BANK LOANS ARE EXEMPT, BUT COMMERCIAL BANK LOANS ARE NOT. THE TRANSPORTATION OF PASSENGERS IS EXEMPT, BUT THE TRANSPORTATION OF GOODS IS NOT. RESTAURANTS AND JEWELERS ARE EXEMPT.

6. FOOD WILL BE SUBJECT TO THE TAX WITH THE EXCEPTION OF RICE, AT THE WHOLESALE STAGE AND AT THE PRODUCTION STAGE UNLESS THE PRODUCER IS OTHERWISE EXEMPT AS A FAMILY ENTERPRISE.

7. COMMENT: THESE INSTRUCTIONS GIVE WIDE LATITUDE TO THE DGT IN COLLECTING VAT. MUCH OF THE SIMPLICITY OF THE ORIGINAL LAW IS LOST AND CONTROVERSIES OVER WHAT IS OR IS NOT EXEMPT ARE PROBABLY INEVITABLE. WE BELIEVE OUR ESTIMATES FOR VAT COLLECTIONS REMAIN VALID. IN JULY AND AUGUST, VAT RECEIPTS WERE VN\$ 6.6 BILLION, AND THIS RATE SHOULD BE MAINTAINED OR EXCEEDED FOR THE REST OF THE YEAR. MUCH, HOWEVER, DEPENDS ON THE BUSINESS COMMUNITY'S RECEPTIVITY TO VAT AND THE SUPPORT DGT RECEIVES FROM THE REST OF GVN. AUGUST INCOME TAX COLLECTIONS WERE DOWN; OTHERWISE VAT MODIFICATION DOES NOT APPEAR TO HAVE HAD ANY IMPACT ON TAX REVENUE. MODIFICATION OF VAT PROBABLY CONTRIBUTED TO LEVELLING OF PRICES IN AUGUST. EFFECTS OF VAT ON PRICES NOW ARE NOT DISCERNIBLE.

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